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C O N F I D E N T I A L SECTION 01 OF 04 LA PAZ 000472

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SUBJECT: GAS SCANDAL TOUCHES TARIJA AND SQUEEZES OPPOSITION  
(C-AL9-00459)

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Classified By: A/EcoPol Chief Brian Quigley for reasons 1.4 (b,d).

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Summary  
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1. (C) As corruption scandals swirl around President Morales and his administration, corruption may also provide a mechanism for a power-grab in the southern, gas-producing state of Tarija. Ironically, the same company, Catler-Uniservice, that was presumably making the payoff to Santos Ramirez, then president of Bolivia's national hydrocarbon company (YPFB), for the contract to build the Santa Cruz gas separation facility, is also linked to shady dealings with Mario Cossio, opposition leader and governor (prefect) of Tarija. President Morales has promised to have Cossio arrested before mid-April. Cossio has responded by accusing Morales of trying to divert the spotlight, but the charges against Cossio and his diminishing popularity in his home state makes a MAS takeover of the prefecture a possibility. Some believe that space still exists for dialog and the public pronouncement are merely bravado to play to hard-line elements on both sides, but a tarnished Cossio leaves regional opposition leaders adrift, caught between a discredited national opposition party (Podemos) and a relentlessly aggressive MAS push for regional power. End Summary.

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The National Gas Scandal Background  
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2. (C) The current national gas scandal revolves around the contract to build a gas separation facility in Rio Grande,

Santa Cruz (Note: There was a great deal of pressure on the Morales government to advance this project because the separation facility would help ease the shortages of Liquid Petroleum Gas (GLP). Currently, the gas exported to Brazil has a high BTU level because the propane and butane, used for GLP, are not processed out. End note.). On April 9, 2008, President Morales signed a decree authorizing YPFB to directly contract (without a bidding process supervised by the Senate) to construct the plant. In July, Santos Ramirez, then president of YPFB, announced the \$86 million dollar "turn key" contract for Catler-Uniservice to build the facility. At the time, no one in the hydrocarbon industry had heard of Catler-Uniservice. The company came under the spotlight following the murder of its Santa Cruz/La Paz business representative Jorge O'Connor during a botched robbery attempt (Ref. B-F). Jorge O'Connor was carrying US\$450,000 allegedly destined as a kickback for Santos Ramirez. Miguel O'Connor is Jorge's brother and is the company's legal representative in Tarija. The O'Connors are a well know family in Tarija. Miguel has claimed that he has no knowledge of his brother's activities in La Paz or Santa Cruz because he strictly limits his administrative oversight to Tarija.

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An Additional Smell In Tarija  
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13. (C) It now appears evident that Catler-Uniservice never was a justifiable choice to carry out the gas separation

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facility contract. Uniservice is a construction company from Tarija with no experience in the hydrocarbon area. It also appears that Catler, based in Argentina, is merely a shell company created to pair with Uniservice in order to win the contract. Several Tarija middle men worked to convince (bribe?) Ramirez that Catler-Uniservice could build the facility using subcontractors in the U.S. and Argentina. (Note: The U.S. firm involved is Gulsby Engineering Inc. based in Texas. Having already been paid \$13 million dollars, the credibility of Gulsby is now being questioned in the Bolivian press. Gulsby is reportedly a family firm with less than US\$57,000 in assets that only did around US\$1 million in business last year. Gulsby did not return calls to Econoff. End note.) Additionally, Uniservice has also won contracts offered by the Tarija prefecture. The rub is that Mario Cossio's brother, Pablo Cossio Cortz, is also linked to the company.

14. (C) About three months ago, Tarija's Secretary of Hydrocarbons for the prefecture Gabriel Paz resigned his position. His wife, Podemos Senator Maria Rosa Paz, told Econoff that Gabriel was tired of insisting on technical merits for the awarding of contracts. Evidently Cossio and his closest advisors had been pressuring to eliminate technical prerequisites for construction contracts and hydrocarbons contracts in particular. Rather than bow to the pressure, Gabriel Paz resigned and, according to Maria Rosa Paz, the bidding qualifications were changed and Uniservice was allowed to bid. These allegations join others circling around Mario Cossio (Ref. G). Allegations that United Nations Development Program (UNDP) funding in Tarija was used inappropriately recently led the UN office in Bolivia to issue a letter assuring diplomatic missions in the country that its program funds were all being managed appropriately.

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Management Style and Boom Times Make Corruption Likely  
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15. (C) Cossio has overseen a skyrocketing state budget in Tarija. Cossio entered office in 2005, at the same time that laws redistributing hydrocarbon revenues to the state governments went into affect (not to mention when the price of Bolivian gas began its impressive rise). In 2004, Tarija's state income was around US\$68 million; in 2007, that

figure had risen to US\$212 million. Converting this bonanza in tangible benefits for the population has been difficult, largely because the capacity of the local government could not match the windfall. However, part of the blame must be placed at the feet of Cossio.

¶6. (C) Freddy Castrillo, the likely new president of the civic committee (elections will be held on April 3), told us that a lack of transparency in the budget process has created an atmosphere of distrust in the state and has helped feed the rumors of corruption. He said, "the people of Tarija simply don't know what the prefect is up to; they truly do need to open up the process." Senator Paz described Cossio's management style as authoritarian. All decisions are made by Cossio and his inner circle of Mauricio Lea Plaza and Ruben Ardaya, the two other authorities frequently accused of corruption by the MAS central government. According to Paz, this has led to a climate in the prefecture where lower level officials are afraid to take any initiatives or even advance their projects. As a result, many high profile initiatives have stalled and/or contracts are signed without adequate transparency, even within the prefecture itself.

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Cossio vs. Morales  
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¶7. (C) The Secretary of Economic Development in Tarija, Ernesto Farfan, told Econoff that Cossio was taking the

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threat of arrest very seriously. The Morales administration does not limit its charges against Cossio to corruption, but also accuses him of terrorism for ordering the attack on the gas pipelines during the civil uprisings in September 2008. Returning from a European trip on March 23, Cossio did not arrive in La Paz with the rest of the delegation for fear of being arrested, but rather flew through Argentina and crossed into Tarija from Salta. The threat of arrest however, has not silenced the prefect. Along with representatives from 11 Tarija institutions, Cossio has filed an accusation against Morales for initiating the corruption surrounding the gas separation facility by signing the Supreme Decree that allowed YPFB to conduct a no-bid contract. (Note: This is in line with the opposition strategy to connect corruption scandals to the Morales administration for the manner by which it conducts economic policy, i.e. through state corporations and presidential decrees (Ref. B). End Note.)

¶8. (SBU) Following the Europe trip, the Morales administration again attacked the prefect. The Vice Minister of the Interior, Marcos Farfan, accused Cossio of plotting an "auto assassination attempt" which he would then try to blame on Morales. Additionally, Farfan said that Cossio had been "knocking on the doors of the fascist organizations in Europe" to look for financing to continue the "civic coup" that he had tried to perpetrate in September 2008. Moreover, the Vice Minister for the Prevention of Corruption, Tamer Medina, insinuated that Cossio had asked for asylum in Germany to avoid prosecution. Cossio denied all of the accusations and said he would not be leaving Tarija. He then added that if anything should happen to him or his family, the public should know to lay the blame firmly at the feet of Evo Morales.

¶9. (C) Podemos Senator Roberto Ruiz from Tarija also accompanied Cossio on the trip to Germany and told us that there was absolutely no time for any clandestine meetings. Moreover, he said that in addition to Santa Cruz Prefect Ruben Costas, three members of the MAS were also a part of the delegation: Deputies Eduardo Novillo, Ceasar Navarro and Alejandro Colanzi. This was neither publicized in the press nor by the Morales administration. Ruiz contends that it illustrates that many different factions exist within the MAS itself. For Ruiz, the announcements by Farfan and Medina only represent one hard-line faction within the party (and may not

have come from Morales himself). He believes that there also exist MAS factions that want to find a middle ground with moderate members of the opposition. Ruiz represents part of the "opposition middle-ground" and he is seeking to build and maintain bridges with the MAS.

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The Shape of Autonomies and Roadblocks to Dialog  
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¶10. (C) Ruiz laments that the Tarija prefecture has maintained a strict posture of advancing its model of autonomy as passed by the state's population, rather than work with the central government to modify the model to correspond with the new constitution. This rigid position has, in his opinion, played into the hands of the conflictive, hard-line of the MAS. Moreover, it has forced the Chaco region of eastern Tarija (and parts of the states of Santa Cruz and Chuquisaca) to seek its own form of autonomy directly from the central government. In Ruiz's opinion, Cossio will never be able to defeat the MAS hard-liners head on with public expressions of conflict and hostility -- it plays into the MAS hard-liner's hands. For Ruiz, Cossio must negotiate behind the scenes with factions of both the MAS and the opposition that are open to dialog and able to advance a legal framework for the new constitution that takes both views into consideration. In this way, he thinks it will be harder for Morales to attack

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and/or imprison Cossio because he would be seen as undermining people diligently working to advance a national consensus. (Note: This arbitrator role was played by Cossio and Ruiz during the uprisings in September and helped bring Cossio into the national spotlight. End note.)

¶11. (C) Ruiz also said that the Santa Cruz Prefect, Ruben Costas, was more open to dialog and reconciliation than other opposition leaders; however, he is constrained by the many hard-line opposition figures in Santa Cruz. He also said that Senate President Oscar Ortiz from Santa Cruz was a key instrument for these hard-line factions and continually takes an unnecessarily uncompromising line within the senate. Ruiz pushed his vision throughout the trip to Europe and still hopes that Cossio will follow his lead as he works with MAS moderates like Novillo and Navarro. He hopes that they will be able to reach compromises on the new electoral law over the next two weeks, but he is afraid that the series of legal charges made by both the Tarija institutions and the Morales administration may limit any space for compromise.

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Tarija Opposition: No Clear Way Forward  
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¶12. (C) Outside of a push within the senate by Ruiz for compromise and dialog, opposition figures within Tarija are caught between a prefect seen as corrupt and the relentless MAS push for regional power. The opposition political party of Podemos is moribund in Tarija and their civic committee, a traditional avenue to advance state goals, has suffered a severe drop in respect following the September violence and the resulting arrest of then Civic Committee President Reynaldo Bayard. Bayard felt abandoned by Tarija leaders while in jail and has accused Cossio of ordering the attacks on the gas pipelines. He was removed from the civic committee and is now living in the Chaco region. The end result is that now the civic committee is no longer seen as a credible voice for the people of Tarija, nor for its institutions.

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Comment  
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¶13. (C) While the tensions between the opposition states

and the central government have taken a back seat since the new year, they will be coming more apparent again as the nation struggles to pass the implementing legislation for the new constitution. One of the big fights will be over the shape of autonomies. While elements within the congress work for compromise, they will likely be overshadowed by hard-liners on both sides of the fence. Tarija will again be a critical test. Should Cossio (and Ruiz) work behind the scenes to secure compromise wording on national autonomy laws, and emerge as a force for peace and national reconciliation, Bolivia may avoid more violence and advance towards a national consensus. More likely however, the MAS will continue to steamroll any moderate voices and seek to eliminate regional opposition figures, including Cossio. Despite the MAS's own complicity in corruption scandals, charges of corruption are one more tool in the MAS arsenal and an obvious target remains Mario Cossio and the Tarija prefect leadership.

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